1966 Annual Report

ALLIS-CHALMERS

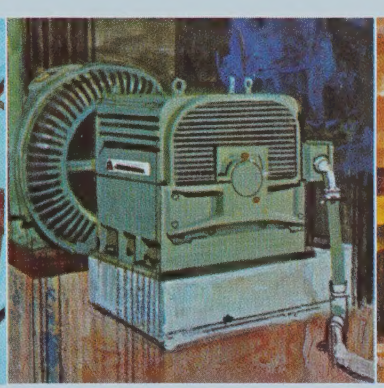
1966 Annual Report

The next ANNUAL MEETING will be held at the Company's general offices, 1205 South 70th Street, West Allis, Wisconsin at 11 a.m., May 3, 1967.

GENERAL OFFICES • West Allis, Wisconsin
STOCK TRANSFER AGENTS • Morgan Guaranty Trust Company, New York, New York; Continental Illinois National Bank & Trust Company, Chicago, Illinois
REGISTRARS OF STOCK • Manufacturers Hanover Trust Company, New York, New York; The First National Bank of Chicago, Chicago, Illinois
DEBENTURE TRUSTEE • The Chase Manhattan Bank, New York, New York
GENERAL COUNSEL • Quarles, Herriott, Clemons, Teschner & Noelke, Milwaukee, Wis.
INDEPENDENT ACCOUNTANTS • Price Waterhouse & Co., Milwaukee, Wisconsin

	1966	1965
Sales	$857,215,137	$714,408,892
All Taxes	41,782,633	34,116,793
Earnings	26,154,592	22,109,576
Per Share of Common Stock		
Earnings	2.65	2.33
Dividends	.81¼	.56¼
Book Value at Year-End	35.72	34.04
Additions to Plant & Equipment	27,676,000	24,603,000
Payrolls	266,418,324	230,458,793
At Year-End		
Working Capital	305,246,490	304,949,310
Current Asset Ratio	2.86 to 1	3.82 to 1
Common Share Owners	59,941	54,707
Employes—Worldwide	38,633	35,249

Our 1966 sales came from the following broad market categories:



30% from the Farm, Light Industrial & Outdoor Power Equipment markets

Broad lines of well accepted equipment in each classification, plus good sales forces, give us substantial positions.

17% from the Electric Utilities market

Leadership in the hydraulic turbine and pump storage generation fields, technical advances in extra high voltage equipment and new products assure continued high level market participation.

25% from the Industrial Equipment category

Diversified lines of material handling equipment, motors, pumps, compressors, papermaking machinery, switchgear, controls, drive apparatus and systems management support our broad capabilities in this important area.

28% from the Earthmoving, Mining & Processing markets

Tractor scrapers, crawler tractors, crawler loaders, wheel loaders and motor graders plus crushers, grinding mills, kilns, screens and pelletizing equipment provide a strong base for continued growth in these fields.

To Our Share Owners

1966 sales totaled $857 million—20% over the 1965 record. Every operating division showed an increase in volume. The Company's sales have increased 57% in the last three years. This substantial gain is noteworthy since the improvement generally exceeds the "growth" of the various markets we serve.

Net earnings of $26,154,592 reached a new high and were 18% greater than the 1965 total. Applied to the increased number of common shares outstanding, this figure produced profits of $2.65 per share after preferred stock dividends.

In the final quarter the Board of Directors was pleased to be able to authorize a 33⅓% increase in the common dividend —to 25¢ per share.

Capital expenditures approximated $27 million for the year. They should be higher in 1967, perhaps by as much as one third.

Export sales of $78.5 million modestly exceeded those for 1965. Generally, this lack of growth must be attributed to lower economic activity in some of the markets and to tight credit conditions. The same circumstances affected our non-consolidated foreign operating subsidiaries. We

R. S. Stevenson *W. G. Scholl*

look for slightly better conditions for the overseas operations in 1967.

To support our international operations without detrimental effect on the nation's balance of payments, the Company has formed an international finance subsidiary which has borrowed $15 million in Europe on its five year notes, guaranteed by the parent Company.

Following a tendency which has become general in Mexico, we have arranged for our Mexican subsidiary to "go public" and will sell 51% of the stock to Mexican nationals. While the operation is presently small, it has good growth possibilities in the material handling field.

As this letter is being written, the strikes at our electrical transformer plants at Pittsburgh, Pennsylvania, and Gadsden, Alabama, have continued for three months. The two unions involved are United Auto Worker units. The issue is whether or not the wages, benefits and contract terms should follow the electrical workers' "pattern" or conform to the automobile-farm equipment "pattern". Since we must keep our labor costs and contract terms in line with those of our competitors—in this case the electrical industry—we have offered the same contract provisions to these two unions which were accepted by the unions and employes in our largest electrical competitors' operations. We cannot believe the stalemate should continue much longer and, of course, the solution is of strategic importance to Allis-Chalmers.

Because of the scope and nature of the labor contracts which must be negotiated in 1967—a number of our United Auto Worker agreements among them—this year is being billed as one of labor turmoil. We hope this will not prove to be true. We trust that the large unions will find a reasonable position which will benefit both their members and the enterprises which employ them—without exposing the economy to serious unsettlement in a year of delicate balance like 1967.

We would like to express our appreciation to all who had a part in making 1966 a record year for Allis-Chalmers—our customers, dealers, suppliers, investors and the entire Company organization.

In August, 1966, Mr. John M. Coates, Chairman and President of the Masonite Corporation, and in January, 1967, Mr. Joseph W. Simpson, Jr., Chairman of the Board of the First Wisconsin National Bank, were elected Directors. They succeeded Mr. Joseph L. Singleton and Mr. Phillip F. Bauer, both of whom had served as Senior Vice Presidents, as well as Directors, and who had retired.

The outlook for 1967 is not entirely clear. The economic predictions do not agree and their net result is not much more helpful than is the forecast "variable winds" to the sailor laying out tomorrow's course. So we look at our own indicators:

The majority of our markets have a strong tone; our backlog of orders for capital goods stands at $315 million; there is built-in strength in the market for farm machinery, our largest, single business. We have a good deal of confidence in 1967.

For the Board of Directors

W. S. Scholl
President

R. S. Stevenson
Chairman

February 1, 1967

Farm Equipment Division

1966 marked the sixth consecutive record-breaking year for this division. And marketing projections indicate another good sales year in 1967.

A program of nationwide corn and soybean clinics was one important factor in our 1966 sales success. These instructional sessions, in cooperation with other farm supply companies and local dealers, drew nearly 50,000 leading farmers... and resulted in strong new interest in our line of advanced equipment.

Also last year, more than 200,000 farmers attending farm shows saw two specially equipped tractor units which focus attention on our modern farm equipment line. The demonstration tractors—which are now on nationwide tour—include air-conditioned cab, TV, two-way radio, AM-FM radio and stereo. Resultant mass media coverage of the showings is of immense value to our entire marketing program.

Our *Gleaner* combine placed first in the 1966 National Corn Picking Contest. Capturing four places in the first five positions of last year's contest, A-C equipment has won first place in this competition in four of the last five years.

Continuous new product development is essential to success in this industry. Recent additions to our line include:

- A mower-conditioner that mows, conditions and windrows hay in one operation, displacing three machines.
- A 12-hp garden tractor and a 5-hp riding mower, to meet the growing demand for variety of choice in the outdoor power equipment market.
- New cotton harvesting machines planned for 1967 production to further expand our market potential.
- Equipment for 20 in. row corn culture which—when added to 40 and 30 in. machinery—gives us the most extensive line for this equipment in the industry.
- Two industrial tractor models—the I-600 and the I-400—featuring large loader capacity and versatile backhoe.

In manufacturing, we are expanding our facilities. Two of the most recent examples are first, a new high-speed assembly line at our La Porte, Indiana, plant for the manufacture of corn heads. Here, numerically-controlled machines provide maximum production capacity while retaining the highest degree of quality. More efficiency, more economy. And second, an administration building was enlarged and new machine tools were added at our Independence, Missouri, plant to increase production of *Gleaner* combines, which continue to gain in market penetration.

L. W. DAVIS,
General Manager and
Vice President

Harvesting equipment, such as the Gleaner combine operating here, is part of a full A-C farm machinery line which also includes tractors, implements, corn heads and pickers, cotton pickers, manure spreaders, industrial equipment and power units, and outdoor power equipment.

General Products Division

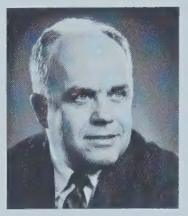
This division serves a diverse group of industries, including paper, rubber, chemical, petroleum, textile, automotive and original equipment manufacturers. Total sales were up better than 20% in 1966, and orders already obtained indicate a good sales year in 1967. The establishment of a new sales training center for both field and factory representatives was a factor behind the increased sales.

Markets were expanded. More than 100 Maxeal VII pumps were sold to apartment and business complexes, three paper machine startups were completed, and we booked orders for two more complete paper machines. Custom compressor sales to the chemical and petroleum industries also showed a big increase.

Acceptance continued to mount for the unique *VersaPac* motor. The great advantages of this product—less floor space needed, new insulation system, utilization of standard components, and an interchangeable top housing structure—were mainly responsible for our sizeable increase in large motor sales.

New products introduced included switchgear for substations and large buildings, vertical turbine pumps, a highly efficient solids handling pump, new valve products for the water works industry, stock pumps for the paper industry, and a new compact line of general purpose industrial motors. Projects for new product development are continually appraised for their economic potential, thus permitting current emphasis on those which yield the greatest return on our investment in the shortest period of time. In conjunction with these activities, experimental facilities—in various plant locations—are provided on a pay-as-you-go basis.

An extensive program of plant modernization aimed at increasing our manufacturing production capacities has been highly successful. Our Norwood, Ohio, plant shipped out more motors and generators in 1966 than ever before. Reorganization of facilities at our Appleton, Wisconsin, plant has also contributed to higher productivity.



R. G. NORDSTROM,
General Manager and
Vice President

Products of this division include pumps, compressors, motors, generators, switchgear, industrial control, valves, d-c apparatus, liquid conditioning chemicals, and paper machines—one of which is illustrated on this page.

Electrical Transmission and Distribution Division

1966 was truly a record year for the nation's electric utility industry. Annual sales reached one trillion kilowatt hours for the first time in history. This load growth and other factors indicate that utility companies will continue their increased capital spending for transmission and distribution equipment. Allis-Chalmers kept pace with this industry growth by again setting new sales records.

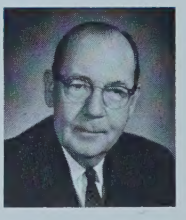
The utility industry in 1966 also continued to direct increased attention toward extra high voltage (EHV) transmission—for greater operating efficiencies, and toward underground power distribution—for environmental beautification. Active participation, with the introduction of new equipment, has demonstrated the Company's capabilities in these areas of advanced technology.

Allis-Chalmers, with its broad variety of transmission equipment needed for EHV installations, has participated in virtually every major transmission intertie across the country. Products used include large power transformers, air blast circuit breakers, disconnect switches and high voltage reactors.

The Company also introduced new products last year to help utilities increase the operating efficiency and attractiveness of their systems. The *Sub/Tran* system was one of the most important. This is a versatile new transformer permitting maximum flexibility in the design of underground systems, yet guaranteeing reliable, convenient and economical operation. Other product innovations were a compact, hermetically-sealed pole-type transformer, a new low-profile circuit breaker, and the pantograph switch, which is the first of its kind in the U.S.

A new development laboratory was also completed at our Pittsburgh plant. As part of a major renovation plan at this plant, an electronically-controlled assembly line for distribution transformers was completed.

T. D. LYONS,
General Manager and
Vice President



Large power transformers, such as that shown on this page, distribution transformers, switches, substations, circuit breakers and voltage regulators are the products of the Electrical Transmission and Distribution division.

Construction Machinery Division

Expanded sales were recorded in 1966 by this operating division which designs, engineers, manufactures and markets a broad range of construction machinery. Part of last year's improvement was due to improved product quality and to stepped-up sales programs by our dealers.

To better serve our markets throughout the world, the Company's new Parts Central Depot will be completed near Chicago in early 1967. This modern complex will use the latest computer equipment to automatically handle ordering, storage and shipment of construction machinery parts and the parts of two other product lines...material handling and engine. Other locations in the overall computerized parts distribution system for construction equipment are in California, Texas, New Jersey, and Toronto, Ontario.

New products introduced in January of 1967 include a Model 745 articulated wheel loader weighing 37,000 lb and a Model HD-12G crawler loader weighing 42,000 lb, both designed for greater output in a wide variety of construction markets. Another is a combination rock wagon and scraper tractor, the largest of its kind in the world. For our Canadian markets, a versatile and economical motor grader was made available.

An important and interesting development of this division occurred in 1966 when our latest construction machinery units began full-scale operations on a recently acquired proving ground located near Phoenix, Arizona. The 5,000-acre site offers excellent year-round testing conditions for construction machinery — heat, dust, abrasive soil and mountainous terrain—assuring our customers the best in product quality and reliability.

Dealer sales representatives and service personnel from both dealer and customer organizations increased their job abilities during service and sales schools at the division's Springfield, Illinois, training center. This expanded training school is just one of many programs intended to keep both our vital dealer organization and the machines they handle at peak performance levels.

P. H. ALSPACH,
General Manager and
Vice President

Picking up and moving big loads is no problem for this recently introduced crawler loader. Other products of this division include tractor scrapers, crawler tractors, wheel loaders and motor graders.

Process Equipment and Systems Division

Delivery of equipment for major projects in the processing field made a significant contribution to the sales increase of this division in 1966.

Most equipment for the processing industry operates under extremely abrasive and wearing conditions. Therefore, parts replacement represents an important factor in the aggregate and crushing equipment market. To better serve our customers, new emphasis is being placed on parts and service functions. As a result, our unit sales in the past few years have doubled in volume.

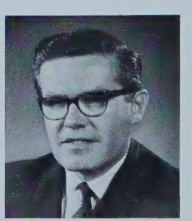
Future plans of our customers are indicative of the strong marketing potential for equipment used in crushing and processing aggregates and in iron ore pelletizing, where Allis-Chalmers already holds a commanding position. With the advent of a more favorable money market, these plans are sure to develop into orders. Multimillion-dollar projects are now in the planning stage in the U. S., Canada, and overseas. Processing equipment is an integral part of roadbuilding projects, dam construction, fertilizer manufacture, cement and steel making, all of which are of primary importance to many nations throughout the world.

New processes for fully modernizing customers' plants were developed in 1966. A descriptive printed series issued last year explained the benefits of our *Systemation* concept used in cement producing plants. Every facet of the operation is covered—from precise feed rate to computer control—to help achieve optimum production levels.

A new addition to our Process Research and Test Center at Oak Creek, Wisconsin, —the controlled atmosphere furnace—began operations in 1966 for applied research toward more sophisticated processing in the steel and cement making industries. This unique furnace processes a variety of materials under controlled conditions of temperature, pressure and environment, to provide vital information about the reaction of various materials to simulated field conditions.

The area of manufacturing innovations saw the addition of a multimillion-dollar fabricating facility at the West Allis, Wisconsin, plant. Much of the work here will involve rotary kilns and grinding mills which are in strong, worldwide demand by the processing industry. This building will increase fabricating facilities by 40%.

T. L. DINEEN,
Acting General Manager



The Grate-Kiln system is widely used for pelletizing iron ore, as portrayed here, as well as for the processing of other materials. Process control systems, crushers, grinding mills, rotary kilns, coolers, dryers, screens and compacting equipment are other products of this division.

Material Handling Division

Our 1966 increase in shipments of material handling products marked the fifth consecutive year of sharply increased sales in this important segment of the Company's operations. Volume in material handling products has more than quadrupled since 1961.

As a result of this rapid growth, we established this business as a separate operating division and placed engine operations within a newly established department. Our marketing efforts can be further concentrated for increased sales.

The material handling service department was reorganized in 1966 into four distinct functions: field, product, education and administration. These sections provide faster solutions to service problems and perform training of dealer and customer service personnel.

Allis-Chalmers increased participation in two important material handling markets last year with the introduction of new units. A newly designed truck for cotton handling was one. Another was an electric-powered lift truck for stevedoring applications. The latter product grew out of demands for fume-free lift trucks for use in all types of industries to help reduce air pollution and contamination. The national concern with air pollution assures further expansion in this market.

Cost reductions and labor savings were realized at the Harvey, Illinois, plant as a result of new machine installations and ceramic tool applications.

In keeping with the policy of gearing abilities of our employes to ever-changing markets, division personnel attended two separate management courses in 1966. This special training will help Allis-Chalmers people meet the requirements necessary for the continued growth of our Material Handling division.

F. M. BORWELL,
General Manager and
Vice President

The large capacity lift truck illustrated here is one of a full line of engine-powered and electric lift trucks produced by this division.

Sales to both Canadian and export markets rose sharply to more than 35% over 1965. Export sales represented a significant 25% of the increased total for the division.

A very important step forward was the institution of a Total Quality Assurance program. Our plant at Lachine, Quebec, became another facility within the Allis-Chalmers family to put this five-year program into effect. The project involves extensive use of special quality assurance and control techniques. Its purpose is to achieve a competitive advantage by creating maximum prospect confidence in the quality of Canadian Allis-Chalmers products.

In 1967, we will participate in EXPO '67 as a sponsor of the Pavilion of Quebec Industries. This will enable Allis-Chalmers to tell visitors of the important role our products play in their daily lives. For instance, we will promote the fact that Allis-Chalmers is participating in the massive oil-extraction project—Great Canadian Oil Sands—now under way near Fort McMurray, Alberta. This project is aimed at processing bitumen into useable crude oil.

Most notable of the new products introduced by Canadian Allis-Chalmers in 1966 was a stock-handling pump for the pulp and paper industries. Also, production began on 34.5-kv switchgear, a marketing first as we are the only manufacturer of electrical equipment in Canada to offer this type of product.

A new Research and Development facility at our Lachine plant coincided with a two-year government grant for the development of a self-contained fuel cell supply system. When the new unit is operational, chemical energy of a fuel will be converted into direct current electricity. Production of fuel cell systems for certain applications is expected to follow.

Also at Lachine, an Operation Services Department has been established to create and coordinate procedures and programs to improve in-plant operations, planning, scheduling, and inventory control. Already, a conversion to data processing has eliminated time-consuming manual computations and reduced operating costs.

BOYD S. OBERLINK,
President,
Canadian Allis-Chalmers

Mining, one of Canada's major industries, is served extensively by our processing machinery. This crusher is a good example. In addition to process equipment, Canadian Allis-Chalmers produces hydraulic turbines, switchgear and controls, pumps and compressors.

Hydraulic Products Division

Sales billed by this division nearly doubled last year; however, new purchases by utilities and governmental agencies were down somewhat due to higher interest rates and the Federal Government's increased attention to the war in Vietnam. Allis-Chalmers did obtain a good portion of the hydraulic business that was purchased.

In 1966, principal orders were received from Duke Power Company, TVA, and the U. S. Army Engineers. With a lower level of purchasing activity in the hydraulic industry last year, orders in the next two years are expected to show a sharp surge. We are fully geared to take advantage of this situation.

Since both hydraulic generators and turbines are often sold together—and to the same customers—responsibility for selling and engineering the hydraulic generator line was transferred in 1966 to this division. We presently are the only U.S. manufacturer to supply both product lines.

A long-standing need of the hydraulic turbine industry has been filled with the introduction of our new mixed flow runner. This product was designed to improve turbine performance in the specific speed range between the high-head propeller runner and the low-head Francis runner.

The Company's continued expansion in Research and Development was marked by the installation of a model test laboratory in our York, Pennsylvania, plant. Latest X-ray equipment is included for maximum assurance in checking product quality. The new laboratory is in addition to a 67,000 sq ft expansion of the York plant to increase manufacturing floor space and production capacity.

M. W. JOHNSON,
General Manager and
Vice President

The runner, intermediate head cover and main shaft illustrated here are being lowered into a hydraulic turbine installation. Other products of the division include reversible pump-turbines, hydrogenerators, Tube turbines, valves, axial-flow pumps, water handling equipment and nuclear components.

Sales in 1966 of Allis-Chalmers products to overseas markets were slightly ahead of the previous year, a point covered on page 2 of this report. Placing emphasis where opportunities are the greatest, the Company made a number of important moves during the year, both on the marketing and manufacturing fronts.

In the area of sales promotion, we conducted a construction machinery marketing conference at Lima, Peru, which was attended by dealer personnel from 14 Latin American and Caribbean countries. Stressed at this all Spanish-speaking meeting were product features, marketing techniques and full-scale equipment demonstrations.

Farm equipment and construction machinery dealer and customer service throughout the Free World was speeded by the opening of new overseas parts depots. One facility, located in Bremen,

Germany, is now serving dealers in the United Kingdom, Europe and the Middle East. Another, at Newcastle, Australia, stocks parts imported from the U. S. as well as construction machinery and farm equipment components made in our Australian and British plants.

In Brazil, the long-established firm of Fabrica Nacional de Vagoes (FNV) of Sao Paulo began production of our 43-hp, three-ton crawler tractors under an Allis-Chalmers license agreement. These compact machines will be marketed through our dealers in South America, where our sales of heavier construction equipment have been excellent.

Allis-Chalmers participation in worldwide industrial expansion continued in 1966. Examples were the installation of hydraulic turbines, generators and power equipment at the Pamba-Kakki project in Kerala, India; orders for the first cement making *Grate-Kiln* system in South America; and a fleet of our construction machinery for Iraq, to be used for cutting needed irrigation canals.

We are gearing our manufacturing facilities throughout the world to produce identical products . . . thereby gaining distinct advantages in several areas. First, there is one-time engineering cost. Second, improved customer service is achieved through parts interchangeability. Third, manufacturing costs are reduced by the simple expedient of assigning production orders to whichever plant can most economically fill them.

Allis-Chalmers manufactures a diversified number of industrial and electrical products in Canada and overseas as well as in the U.S. In addition, a wide range of mobile equipment is produced throughout the world. For example, a partial listing of these products includes: *Lift Trucks* in Harvey, Illinois; Guelph, Ontario; Dieppe, France; and San Luis Potosi, Mexico. *Motor Graders* in Springfield, Illinois; Guelph, Dieppe, and Newcastle, Australia. *Combines* in Independence, Missouri, and Essendine, England. *Crawler Tractors* in Springfield, Illinois, and Milan, Italy.

These highly-integrated facilities around the world indicate our sizeable progress to date. Further expansion in this area will be of prime concern in the future.

E. J. MERCER,
Managing Director and
Vice President

Allis-Chalmers International division sells all Company products abroad, operates foreign manufacturing subsidiaries, licenses overseas manufacturers, subcontracts manufacturing of products abroad and directs activities of Company dealers and distributors in other lands.

Simplicity Manufacturing Company, Inc.

This wholly owned subsidiary at Port Washington, Wisconsin, continued its steady growth in the mobile outdoor power equipment market.

Marketing plans for the 1967 line got off the ground in mid-September at the 16th annual Dealer Days gathering. Meetings and product demonstrations were held at Simplicity's new manufacturing plant and at the firm's experimental farm and proving grounds nearby. More than 800 Simplicity dealers from 30 states, key factory personnel and sales representatives were in attendance.

During the meetings, dealers were shown the new products to become available and were told about 1967 marketing plans. At the proving grounds, engineers put the new Simplicity product line through its paces, demonstrating the outstanding features of these machines.

Five new models were introduced to the trade last fall, and are expected to be a significant factor in the 1967 market.

Leading the 1967 line is the deluxe *Landlord* 2012 riding tractor. Features include a new, smooth-operating Synchro-Balanced engine and wide, floating traction tires to eliminate lawn marks. Additional new attachments for added versatility are a weed and brush cutter, a rotary tiller, a spring tooth harrow and a cultivator.

Other new models are the flexible all-season *Broadmoor* 707 tractor, priced for 1967 at a cost no higher than many single-purpose units, a new two-stage snow thrower with automatic controls, Supermatic *Roticul* tiller-cultivator combination featuring patented Full-Power Reverse Gear Control, and an easy-operating new Model "W" two-wheel garden tractor with exclusive *Quick-Hitch* attachments.

A well-supported belief in the selling power of such products led Simplicity to increase production capacity by 30% in 1966. Manufacturing area now totals more than 7½ acres under one roof. A new administration building was also finished and occupied late last year.

W. J. NIEDERKORN,
President, Simplicity
Manufacturing Company, Inc.

This garden tractor is an example of the broad line of mobile outdoor power equipment manufactured by Simplicity. Other products include riding mowers, rotary tillers, snow throwers, and allied equipment.

Engine Department

Another strong sales increase was achieved by this department in 1966. Government orders alone amounted to more than $12 million as we continued to be a major supplier of engine-generator sets for the missile program. The list of original equipment manufacturers using our engines also continued to grow. Prime markets are construction, mining, logging and general industries—all receiving increased attention from our strengthened dealer organization.

1966 also marked the release for production of our 19000 - 21000 and 25000 Mark II engines for our Construction Machinery division. New product development will receive even greater emphasis during 1967 with the introduction of several outstanding new engines. These additional units will provide customers with a wider range of engines to meet their increasing horsepower requirements. Common components will reduce costs in the manufacture of these more powerful engines.

Laboratory facilities are being expanded rapidly. When completed, we will have a prototype manufacturing and testing area fully capable of handling our known future horsepower needs. These facilities will also include a new machine shop to improve the machining capacity for our experimental engine components.

An extremely important development in manufacturing was the decision to make our own crankshafts. This will eliminate our dependence on outside sources and further reduce costs. In fact, a high level of cost reduction activities at the Engine Plant allowed us to basically maintain our price level during the second half of 1966.

OWEN J. HIGGINS,
General Manager

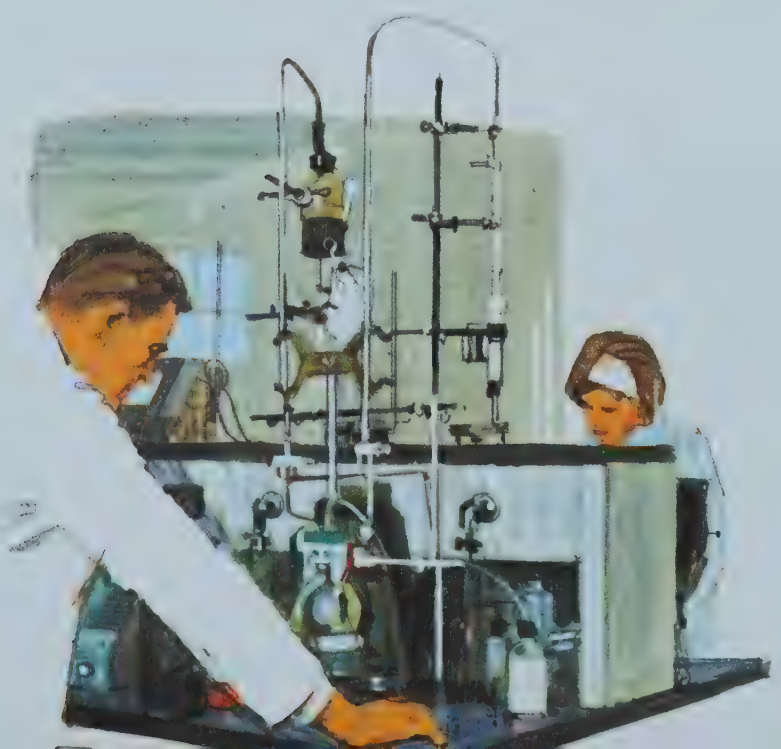
A major factor in the reliability of Allis-Chalmers engines and their acceptance by users is the demanding "proof" program carried on in the Company's production facilities at Harvey, Illinois.

Research, Development and Product Testing

These vital areas of Allis-Chalmers operations involve advanced scientific and technological research, development of ideas from research plans into new products or processes, and thorough testing of the Company's broad range of products. In 1966, our carefully budgeted expenditures for research, product development and engineering reached $45 million, or approximately 5% of sales.

Research activities in our well-equipped Central Laboratories are directly related to both existing and future products. Agricultural scientists are developing new equipment for the farm, applying the latest technology to age-old tasks of soil preparation, planting and harvesting. Research in electrical applications involves studies such as vacuum arc physics, polymers and insulating materials. Systems of crushing and processing ore are being analyzed in depth for the application of complete computer control.

Our major effort toward development of the fuel cell is receiving unflagging attention. First, we have important assignments in the aerospace and defense fields. 244 scientists, engineers and technicians are working on development and pilot production contracts granted us by various Government agencies and contractors. A number of these are looking toward longer duration space missions where our particular system shows a distinct technological advantage. Next, our programs are aimed at developing commercially competitive devices in progressive fields where unit cost is the main challenge. Good progress is being made. So far no one dares forecast the exact date when the fuel cell will become so competitive that it will help eliminate some of the noise and air pollution which bedevils our environment—but it is an attractive, hopeful possibility.



Development activities within our operating divisions, carried on in up-to-date laboratories, are pointed toward the constant challenge of better, more efficient products. It is here that commercially adaptable, working models progress to the production line.

Each major plant maintains well-equipped test facilities to assure product quality. For mobile equipment, these include carefully engineered test tracks and rugged proving grounds. Today's sophisticated electrical equipment is tested under conditions such as a 4-million volt simulated lightning bolt. Industrial equipment is subjected to levels of usage far and above that which it will receive in customers' plants. And engines—integral components of many A-C products—are individually performance-tested to insure rated efficiency.

Proper emphasis, coordination and avoidance of duplication within this widespread program of research, development and testing is provided through a systematic liaison procedure which keeps these functions in touch with each other and with Senior Management, Corporate Planning and Operations Services.

Be it a long-range research project or a routine product test . . . all activities in these areas are aimed at delivering a product that is superior in every respect . . . an important part of our program for excellence in all phases of the business.

Marketing

In offering a broad diversity of products and capabilities, corresponding functions of distributing, selling, and servicing the line of Allis-Chalmers equipment are equally diverse. Our worldwide marketing incorporates a number of structures—all intended to best serve the customer whether he be the purchaser of a garden tractor or of an automated drive system for a steel mill.

Throughout the Free World, "Industry Specialist" is the name often used to describe the hundreds of A-C sales representatives who work with our major industrial customers—purchasers of such Allis-Chalmers products as processing equipment, papermaking machinery, control systems, pumps and motors. These salesmen—who are knowledgeable of the range of A-C products applicable to a given industry—take on some of the aspects of a consultant to the business they serve.

In much the same way that we serve industrial accounts, the Allis-Chalmers "Utility Specialist" works with key representatives of electric power companies—drawing up plans for an extra high voltage transmission system or hydraulic turbine-generator installation. Technical capability in this area of relatively few customers is of the greatest importance.

While large equipment orders by industrial firms and utilities are usually placed directly with an A-C representative, some smaller items such as individual pumps, motors and distribution transformers are oftentimes purchased through a franchised distributor organization or an agent authorized by Allis-Chalmers to negotiate sales of specific products.

Dealership distribution is the dominant form of marketing agricultural equipment, construction machinery, industrial tractors, lift trucks and outdoor power equipment. These independent, franchised dealers—numbering more than 5,000 in 135 countries of the Free World—offer optimum sales and service at locations close to the customer.

Our marketing program therefore incorporates continued analysis of our full complement of present and potential customers and their specific needs. Where industry technology is needed, our skilled sales representative acts directly for the Company. For a major project, a "Task Force" of engineering and application talent may be brought together for a complete proposal. On the other hand, the selling of multiple, relatively small-size items is handled most efficiently by a network of distributors and agents strategically located throughout the U.S. and Canada, and backed up by Company technological and operational assistance. And finally, with present and potential customers numbering in the millions, Allis-Chalmers mobile equipment such as machinery for farm, construction and materials handling is marketed through local, retail dealers backed up by a Company network of branch houses and parts distribution centers.

Allis-Chalmers...a diversified company with worldwide marketing programs directed toward effective customer service.

Allis-Chalmers Plants

Overseas Plants

Newcastle, N.S.W., Australia
Dieppe, France
Vendeuvre, France
Milan, Italy
San Luis Potosi, Mexico
Essendine, England
Mold, North Wales, U.K.

U.S. & Canadian Plants

Appleton, Wisconsin
Boston, Massachusetts
Cedar Rapids, Iowa
Deerfield, Illinois
Frankfort, Michigan
Gadsden, Alabama
Guelph, Ontario, Canada
Harvey, Illinois
Independence, Missouri
La Crosse, Wisconsin
Lachine, Quebec, Canada
La Porte, Indiana
Norwood, Ohio
Oxnard, California
Pittsburgh, Pennsylvania
Portland, Oregon
Port Washington, Wisconsin
Springfield, Illinois
West Allis, Wisconsin
York, Pennsylvania

December 31	1966	1965
Liabilities and Equity		
Current Liabilities		
Notes payable and current maturities of long-term debt	$ 48,242,100	$ 7,285,000
Accounts payable and payrolls	72,839,439	63,706,621
Federal income taxes	19,448,402	19,087,995
Other current liabilities	23,210,239	18,094,381
Total Current Liabilities	163,740,180	108,173,997
Noncurrent Liabilities and Reserves		
Notes payable to insurance companies	72,000,000	75,000,000
Sinking fund debentures—4.85%—due May 1, 1990	45,000,000	45,000,000
Contracts payable—antitrust settlements	8,576,762	10,288,158
Deferred Federal income taxes	3,397,151	1,951,213
Reserve for losses and expenses in discontinuing certain products and facilities	7,372,617	9,133,935
Reserve for antitrust settlements and expenses	1,906,197	6,156,661
	138,252,727	147,529,967
Share Owners' Equity		
Senior preferred stock, $100 par value, 244,520 shares authorized, 94,416 shares 4.08% cumulative convertible series outstanding at December 31, 1965	—	9,441,600
Preferred stock, $100 par value, 500,000 shares authorized, 284,090 and 299,800 shares, 4.20% cumulative convertible series outstanding, respectively	28,409,000	29,980,000
Common stock, $10 par value, 12,500,000 shares authorized, 9,370,543 and 9,006,430 shares outstanding after deducting 95,619 shares held in treasury, respectively	93,705,430	90,064,300
Capital in excess of par value of capital stock	103,143,738	95,862,884
Earnings retained	137,907,336	120,649,558
Total Share Owners' Equity	363,165,504	345,998,342
	665,158,411	601,702,306

Statement of Earnings and Earnings Retained

Allis-Chalmers Manufacturing Company and Consolidated Subsidiaries

Year Ended December 31	1966	1965
Earnings for the Year		
Sales and Other Income		
Sales	**$857,215,137**	**$714,408,892**
Discounts, interest earned and other income	7,395,942	5,441,077
	864,611,079	719,849,969
Costs and Expenses		
Materials, plant payrolls and services	687,438,814	575,503,740
Depreciation	19,453,540	19,706,485
Selling, general and administrative expense	96,256,104	76,133,281
Discount and interest on receivables sold to finance subsidiaries	7,262,125	2,940,238
Other interest expense	7,584,770	5,938,585
	817,995,353	680,222,329
	46,615,726	39,627,640
Provision for Federal Income Taxes	22,660,000	19,125,000
	23,955,726	20,502,640
Earnings of Finance Subsidiaries	2,198,866	1,606,936
Earnings for the Year (per common share: 1966—$2.65; 1965—$2.33)	**26,154,592**	**22,109,576**
Earnings Retained and Used in the Business		
Earnings Retained—Beginning of Year	$120,649,558	$104,705,189
Earnings for the Year	26,154,592	22,109,576
	146,804,150	126,814,765
Dividends Paid		
Senior preferred stock—4.08% series	94,367	385,217
Preferred stock—4.20% series	1,210,255	714,000
Common stock (per share: 1966—$.8125; 1965—$.5625)	7,592,192	5,065,990
	8,896,814	6,165,207
Earnings Retained—End of Year	137,907,336	120,649,558

The accompanying Financial Notes are an integral part of these statements.

Allis-Chalmers Credit and Leasing Corporations
Combined Financial Statements

December 31	1966	1965
Statement of Financial Position		
Assets		
Cash and securities	$ 12,299,731	$ 11,043,065
Receivables		
Retail notes and contracts	134,086,855	107,850,540
Floor plan contracts	104,687,130	72,932,671
Less—Reserve for possible losses	*1,000,000*	*1,000,000*
—Unearned discount, finance charges and rentals	*21,700,722*	*14,207,902*
Net receivables	216,073,263	165,575,309
Leasehold machinery less depreciation	6,532,358	4,480,888
Other assets	6,875,784	1,853,044
	241,781,136	182,952,306
Liabilities and Equity		
Notes payable—short term	$133,243,302	$ 78,052,000
Other payables and taxes	3,436,472	1,997,810
Term notes to insurance companies	75,000,000	75,000,000
5¼% Junior subordinated notes to parent company, due 1986	10,000,000	10,000,000
Capital stock	10,200,000	10,200,000
Earnings retained	9,901,362	7,702,496
	241,781,136	182,952,306

Statement of Earnings and Earnings Retained		
Income from financing operations	$ 18,171,052	$ 12,144,915
Interest expense	10,113,940	6,408,601
Operating expenses	3,809,200	2,675,962
Federal income taxes	2,049,046	1,453,416
	15,972,186	10,537,979
Earnings for the Year	2,198,866	1,606,936
Earnings Retained—Beginning of Year	7,702,496	6,095,560
Earnings Retained—End of Year	9,901,362	7,702,496

Statement of Source and Application of Funds and Financial Notes

Statement of Source and Application of Funds
in millions of dollars

	1966	1965
OPENING WORKING CAPITAL	$304.9	$241.9
Additions		
Net earnings	26.2	22.1
Depreciation	19.5	19.7
Proceeds from sale of 4.85% debentures	—	45.0
Proceeds from sale of 4.20% preferred stock	—	30.0
	45.7	116.8
Reductions		
Dividends on common and preferred stock	$ 8.9	$ 6.1
Capital expenditures, less retirements	23.0	22.4
Investments in unconsolidated subsidiaries	5.0	10.5
Reduction of long-term debt	3.0	3.8
Intangible assets arising from acquisition	—	7.4
All other—net	5.5	3.6
	45.4	53.8
CLOSING WORKING CAPITAL	305.2	304.9
Net increase	.3	63.0

Financial Notes

Note 1—Basis of Consolidation

All domestic and Canadian subsidiaries, except two finance subsidiaries and a marketing subsidiary, are included in the consolidated financial statements. Net assets of the unconsolidated foreign subsidiaries were approximately $1,400,000 in excess of the Company's investment, and net assets of the unconsolidated marketing subsidiary approximated the Company's investment, less reserve, at year-end.

Note 2—Intangible Assets Arising from Acquisition

The excess of the purchase price over the value assigned to the assets acquired from Simplicity Manufacturing Company in October, 1965, is not being amortized at present due to a suit brought by the Department of Justice contesting the acquisition. Management believes that the asset is not diminishing in value and that the suit is without merit and will be successfully defended.

Note 3—Long-Term Debt and Notes Payable

Long-term debt at December 31, 1966, consisted of (a) $45,000,000 4.85% sinking fund debentures, due in 1990; and (b) $60,000,000 3⅝% notes and $12,000,000 3⅞% notes, due $3,000,000 annually, maturing in 1982. The debentures are entitled to a mandatory sinking fund commencing in 1971 sufficient to retire 76% of the debentures prior to maturity ($1,800,000 per year).

Note 4—Reserves

Charges totaling $1,761,318, net of Federal income taxes, were made to the reserve for losses and expenses associated with the discontinuance of operations at the Terre Haute plant and the steam turbine-generator and related steam condenser business at the West Allis plant. Substantially all of the 1966 charges were incurred in connection with the disposition of the Terre Haute plant and post-shipment costs. Certain contingencies remain outstanding, and the amount to be restored to earnings retained, if any, cannot be presently determined.

Charges totaling $4,250,464, net of Federal income taxes, were made to the reserve for antitrust settlements and expenses. Certain of the antitrust settlements are payable in installments to 1970. Installments payable in 1967 totaling $4,773,268 are included in accounts payable.

Note 5—Share Owners' Equity and Dividend Restrictions

The 4.20% issue of preferred stock is convertible at any time into common stock at a conversion rate of $30 per share of common stock; during the year 15,710 shares were converted, and at December 31, 1966, 946,975 shares of common stock were reserved for conversion. The preferred stock may be redeemed, in whole or in part, at the option of the Company, at fixed redemption prices plus accrued dividends.

On February 2, 1966, the Company called the remaining outstanding shares of the 4.08% convertible senior preferred stock for redemption at $103.06 per share; 818 preferred shares were redeemed and all remaining shares were converted into common stock.

Agreements relating to debentures and notes payable and the certificate of incorporation contain certain restrictions relating to the declaration of cash dividends. The amount of earnings retained which was not available for the future declaration of cash dividends on the common stock was approximately $95,400,000.

Note 6—Pension Plans

The Company and its consolidated subsidiaries have

several pension plans covering substantially all of their employes. The total pension expense charged to consolidated earnings for the year was $11,370,000, which includes, as to certain of the plans, amortization of prior service cost. The Company's policy is to fund pension cost accrued. At December 31, 1966, the Company had a contractual liability under certain hourly employe plans for unfunded prior service costs estimated by independent actuaries to be $90,000,000; the principal plans provide for funding over a 30-year period. The unfunded prior service cost for which the Company has no specific funding liability, arising principally from the salaried employe plan, was estimated by independent actuaries to be $66,600,000 at year-end. As a result of amendments to the principal pension plans, total expense and unfunded prior service cost increased in 1966.

Note 7—Federal Income Taxes

The provision for Federal income taxes in 1966 includes provision for taxes payable of $14,387,000 and taxes which would have been payable if deductible charges to the reserves described in Note 4 were not available as income tax deductions. The 1966 investment tax credit of $1,034,000 has been reflected as a reduction of the current year's tax provision. An amount of $2,435,000, representing the tax effect of an excess of tax depreciation over book depreciation accumulated prior to 1964 in the reserve for depreciation, was transferred during 1966 to the reserve for deferred Federal income taxes. Book depreciation exceeded tax depreciation in 1966, and the income tax effect of $912,000 was transferred from the deferred to the current liability.

Note 8—Allis-Chalmers Credit Corporation and Allis-Chalmers Leasing Corporation

Term notes at December 31, 1966, all payable to insurance companies, consisted of (a) $30,000,000 4⅞% senior notes and $10,000,000 5¼% senior subordinated notes, due $1,000,000 annually commencing in 1969 with final maturity in 1983; and (b) $25,000,000 5¼% senior notes and $10,000,000 5½% senior subordinated notes, due $880,000 annually commencing in 1971 with final maturity in 1985.

Note 9—Subsequent Events

In February, 1967, a new wholly-owned subsidiary, Allis-Chalmers International Finance Corporation, issued $15-million of 6⅝% guaranteed notes due February 1, 1972. In connection therewith, the Company purchased 6,000 shares of International's common stock for $3-million and unconditionally guaranteed the payment of principal and interest on these notes. Such notes are redeemable in whole or in part, at the option of International, at fixed redemption prices plus accrued interest, commencing February 1, 1970.

Report of independent accountants

To the Board of Directors of Allis-Chalmers Manufacturing Company:

In our opinion, the accompanying consolidated statement of financial position and the related statements of consolidated earnings and earnings retained present fairly the financial position of Allis-Chalmers Manufacturing Company and its consolidated subsidiaries at December 31, 1966 and the results of their operations for the year, and the combined statement of financial position and the related combined statements of earnings and earnings retained of Allis-Chalmers Credit Corporation and Allis-Chalmers Leasing Corporation present fairly their combined financial position at December 31, 1966 and the results of their operations for the year, all in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Our examination also encompassed the statement of source and application of funds for the year ended December 31, 1966 which is presented as supplementary information and, in our opinion, that statement presents fairly the information shown therein.

Milwaukee, Wisconsin
February 7, 1967

PRICE WATERHOUSE & CO.

10 Year Financial Summary

Year Ended December 31		1966	1965	1964	1963	1962	1961	1960	1959	1958	1957
In Thousands of Dollars	Sales	857,215	714,408	629,067	543,941	516,093	502,243	530,019	539,640	531,972	534,146
	Federal Taxes on Income	22,660	19,125	9,400	3,700	4,300	5,050	11,450	22,200	21,600	17,325
	Earnings	26,154	22,109	12,739	6,870	6,478	6,384	10,999	23,091	19,839	17,909
	Dividends Paid—Common Stock	7,592	5,065	4,488	4,444	6,812	11,376	13,651	11,102	10,270	16,374
	Dividends Paid—Preferred Stock	1,304	1,099	385	385	385	385	386	418	422	465
	Earnings Retained	17,257	15,944	7,865	2,040	(720)	(5,377)	(3,038)	11,570	9,146	1,069
In Dollars	Per Share of Common Stock—Earnings	2.65	2.33	1.37	.73	.68	.66	1.17	2.49	2.36	2.12
	Per Share of Common Stock—Dividends	.81¼	.56¼	.50	.50	.75	1.25	1.50	1.25	1.25	2.00
	Per Share of Common Stock—Book Value	35.72	34.04	32.34	34.19	33.88	35.94	36.53	36.88	36.24	34.97
In Thousands of Dollars	Net Assets	363,165	345,998	300,707	313,482	312,899	336,563	341,940	344,979	308,116	297,655
	Long-Term Debt	117,000	120,000	78,795	82,465	86,135	89,805	93,475	94,145	91,875	92,125
	Plants and Equipment (Gross)	295,364	294,874	286,580	278,862	271,031	255,632	239,542	230,027	212,088	199,992
	Payrolls	266,418	230,458	216,556	202,592	195,824	182,676	197,619	196,137	172,093	187,590
At Year-End	Employes—Worldwide	38,633	35,249	34,259	33,552	32,897	30,216	32,173	36,130	32,364	35,799
	Shares Outstanding—Common Stock	9,370,543	9,006,430	9,005,763	8,893,263	8,956,982	9,101,381	9,101,381	9,089,535	8,216,016	8,214,281
	Shares Outstanding—Preferred Stock	284,090	394,216	94,416	94,416	94,416	94,416	94,416	97,968	103,635	103,635
	Share Owners of Common Stock	59,941	54,707	58,679	61,266	65,977	67,997	67,495	62,414	58,347	56,071

Printed in U.S.A.

Directors

Fred Bohen
*W. C. Buchanan
*W. E. Buchanan
John M. Coates
D. A. Forward
Joel Hunter
Wayne A. Johnston
Boyd S. Oberlink
*Louis Quarles
* W. G. Scholl
Joseph W. Simpson, Jr.
Beauchamp E. Smith
*R. S. Stevenson
*Howard J. Tobin

*Member of the Executive Committee

Officers

R. S. Stevenson.....*Chairman, Chief Executive Officer*
W. G. Scholl.....*President, Chief Operating Officer*

SENIOR VICE PRESIDENTS

J. C. Clamp, Jr.
G. O. Haglund

VICE PRESIDENTS

P. H. Alspach.....Construction Machinery Division
F. M. Borwell.....Material Handling Division
G. W. Clothier.....
L. W. Davis.....Farm Equipment Division
Archie D. Dennis.....Finance and Secretary
M. W. Johnson.....Hydraulic Products Division
T. D. Lyons....Electrical Transmission and Distribution Division
E. J. Mercer.....International Division
R. G. Nordstrom.....General Products Division
C. W. Parker, Jr..Marketing Services and Public Relations Division
C. W. Schweers.....Administration
C. P. Stanford.....Research Division

John S. Lieb.....*General Attorney*
M. S. Simpson.....*Controller*
W. L. Strong.....*Treasurer and Assistant Secretary*
R. F. Alt.....*Assistant Controller*
M. W. Babb.....*Assistant Secretary*
R. C. Heyrman.....*Assistant Secretary and Assistant Treasurer*
W. S. Pierson.....*Assistant Controller*
J. F. Rennebohm.....*Assistant Secretary*

DIVISION, SUBSIDIARY AND DEPARTMENT EXECUTIVES

T. L. Dineen.....Process Equipment and Systems Division
Owen J. Higgins.....Engine Department
F. J. MacDougall.....Purchasing and Materials Service
W. J. McGowan.....Employe and Community Relations Division
H. C. Nickel.....Atomic Energy Division
W. J. Niederkorn.....Simplicity Manufacturing Company, Inc.
Boyd S. Oberlink.....Canadian Allis-Chalmers Limited
C. F. O'Riordan.....Defense Products Division

COMMERCIAL VICE PRESIDENTS

E. T. Cuddeback.....Atlanta
Paul Dietz.....New York City
R. L. Halsted.....San Francisco
J. L. Pratt.....Dallas

ORGANIZATION CHANGES

R. M. Casper.....*Vice President,* Retired, August
John M. Coates.....*Elected Director,* August
M. S. Simpson.....*Elected Controller,* August
C. P. Stanford.....*Elected Vice President,* August
P. F. Bauer,*Senior Vice President and Director,* Retired, December
J. C. Clamp, Jr.....*Elected Senior Vice President,* December
G. O. Haglund.....*Elected Senior Vice President,* December
R. G. Nordstrom.....*Elected Vice President,* December
Boyd S. Oberlink.....*Elected President*
Canadian Allis-Chalmers Limited, December
M. W. Johnson.....*Elected Vice President,* January, 1967
Joseph W. Simpson, Jr.....*Elected Director,* January, 1967